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Alice Teichova

German-British Economic Interests in Central and Eastern Europe on the Eve of the Second World War

In a memorandum from the Central Police Office in the East to the Reich Minister of the Interior dated April 19, 1920, it is claimed that Germany was cut off from the world market by the peace treaty, and that its eastern and southeastern neighbouring states owed their existence mainly to the efforts of the victorious powers to block the path of the German economy.1 While there is no doubt that sharp economic differences were the basis of the First World War and the agreements that followed, historians have since been able to gather ample evidence from which it is clear that the establishment of these nation states was not the result of a conspiracy by the Entente powers, since the dismemberment of the Danube Monarchy was not included in the Allied war aims until the very end.2 Rather, the creation of the successor states appears to be, on the one hand, an inevitable consequence of the physical and social disintegration of the Habsburg Empire, and, on the other, a *fait accompli* brought about by the oppressed and now revolutionary forces. Independence aspirations of the nations and nationalities in Austria-Hungary and, last but not least, as a result of the repercussions of the Bolshevik Revolution in Russia.

Although the new nation states after 1918 were not systematically and purposefully placed ahead of German economic interests, the

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I •The peace treaty has cut Germany off from the world market, the national states are mainly formed to block the German economy's path, •the Czech Republic in the southeast has blocked the path to the Balkans and beyond into the Orient. Germany must come home economically if it wants to maintain its good reputation. The path via the upstream nation states must therefore be enforced despite all prohibitions... c German Central Council,iv Potsdam, Reich Ministry of the Interior. III. Peace Gen. 23/1, ßd 1 (5819), pp. 16-17.

2 In a confidential information for members of the British War Cabinet dated December 10, 1917 it says: •Up to thc present Russia has been looked upon ns the greatest future barrier ro German expansion towards the East and Soucheast. It •cems unlikcly tbat for many ycars co come Russaa wilJ be sufficiently strong or cohrrent to bc capable of stcmming the tide of German influence. Tbc smaller slave states cannot in the ncar future Jook to her as the protcctor agafon Teutonism. 1s it not, thereforc, advisable eo cum dsewhere to find a bar against German expansion? It may be that a reconnicued Austrian Empire would provide what the Allies desire.• Lord Milner, Crcat War Papers, ßox AJ fol. '48 (New College Library, Oxford). See also the recent publication in the field of diplomatic history: ZAB Zeman. A Diplomatic History of the First World War. London 1971, p. '435.

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Central and South-Eastern Europe is nevertheless an important link in the chain of international relations that emerged in the interwar period from the new out of border demarcations, the redistribution of spheres of interest and the reorganization of international capital investments.
These relations must be seen primarily against the background of the violent resolution of the contradictions between the major European powers in the First World War, which resulted, among other things, in the incorporation of the territories formerly under German and Austrian influence into the diplomatic, political and economic sphere of interest of the Entente powers.

From the perspective of the successor states, on the one hand, the national aspirations of the peoples were only superficially satisfied and, on the other hand, national self-determination did not automatically bring the expected or desired economic progress. On the contrary, the individual economies that had arisen on the ruins of a large traditional economic unity could hardly cope on their own with the vital tasks of post-war reconstruction, market problems and the restructuring of their economy and society from an agrarian to an industrial state. At the same time as the territorial and political reorganization in Europe, a new economic balance of power emerged in which Western and thus also British interests were expressed more strongly than in the pre-war period, while German interests were displaced.

In the economy of the 20th century, the importance of capital exports increased considerably both in competition on the world market and in the diplomatic game, and therefore changes in the geographical and proportional distribution of international investments can be used as a critical measure of mutual economic forces. Based on this historical development, the problem of foreign participation in the economy of the Danube region will first be discussed with particular attention to British and German positions, and then the question of the change in the structure of foreign capital investments on the eve of the Second World War will be raised.

In the second part, the level at which the ...
conflicting economic interests of Great Britain and Germany in Central and Eastern Europe clashed.

Central and Southeastern Europe became one of the three main areas for the export of capital by the Western powers, that is, Great Britain, the United States and France, which remained essentially the only creditor states in the post-war world. Great Britain and France were among the main creditors of the pre-war period. While the USA went from being a debtor state to a second-largest state,

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largest creditor in the world, Germany fell to become the most indebted country in the world (alongside Canada) 3•

The industrial and banking circles of the Eastern Powers shifted their interest to Central and Southeastern Europe (along with Latin America and the British Empire) after the losses they had suffered in Eastern Europe after 1917 through the expropriation and nationalization of foreign capital holdings in Soviet Russia. The largest part of French capital investments had been in Russia before 1914, and half of all British long-term investments in Europe were in Russia.
if invested there4. For France and Great Britain, Central and Southeastern Europe was to replace at least part of the Russian market for capital exports, while it also offered favorable opportunities for long-term American loans. Apart from that, French and British entrepreneurs and bankers won the main positions in mining, industry and banking from their defeated German and Austrian competitors in Central and Southeastern Europe. The politically and formally independent states in this area were in fact surrounded by a network of various financial and diplomatic dependencies: the largest industrial groups in the Western world and the leading banks of New York, London and Paris exercised increasing influence on their economic life; their policies were effectively subordinated to the power-political system of the great markets. On the other hand, the governments of the successor states themselves pursued an active policy of dependence, since they practically needed the financial and political support of their stronger partners in the West in order to stay in control of domestic politics and to be able to play at least a limited independent role in foreign policy. In this way, the Central and Southeast European states are becoming more and more dependent on France, Britain and America.

The degree of dependence on the capital-rich nations varied, but generally corresponded to the extent of foreign participation in the economy of the individual countries. All capital-importing states in Central and Eastern Europe had certain common features in their economic life, such as: significant foreign debt of the state, a high percentage of direct foreign capital participation in the private enterprises of their capital-poor economies, significant foreign participation in their armaments industry, constant pressure to pay for interest and

3 International Capital Movements during the Inter-War Period. Unitcd Nations, Lake Success 1949.

4 Royal Jnnirucc of International Affairs, The Problem of International Investments. London, New York, Toronto 1937, p. HS.

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amortization of foreign loans and dividends and profits from investment capital. All this gave rise to chronic balance of payments problems which none of the states, with the exception of Czechoslovakia, was able to solve. At the same time, there were significant differences between the states of the Danube region, since the effect of foreign capital was determined by the individual countries' own economic power and the level of development of the economic and social structure. The following Table 1 illustrates the differences by comparing the total size of foreign loans and capital investments in some Central and Southeast European countries. Foreign capital evidently had a much stronger position in the poorly industrialized agricultural countries than in the relatively industrially advanced states, such as Czechoslovakia and partly also in Hungary.

In general, however, the importance of foreign capital in Central and Southeastern Europe increased both relatively and absolutely after the First World War, although its influence before 1914 should not be underestimated. Quite apart from the fact that Austrian and Hungarian capital lost its dominant position in the area of the former Habsburg monarchy, the role of the Viennese banks as intermediaries between Western European finance and the Balkans also faded into the background, and was now largely taken over by British, French, Belgian and Swiss banks and financial houses, mostly through infiltration into the leading institutes in Vienna and Budapest. German capital exports - which before 1914 were mainly directed towards Eastern and Southeastern Europe within Europe - dried up almost completely in the post-war period and gave way to those of the victorious powers, whose capital penetrated the Danube basin particularly in the first half of the interwar period. Both the provisions of the Versailles Peace Treaty and the national aspirations of the individual states contributed to this. The peak of foreign investment by capital-exporting countries before the Second World War was reached in 1930. Although the global economic crisis restricted new investments and the total size of foreign participations on a global scale fell somewhat, the territorial structure and the proportional distribution of capital investments according to country of origin remained intact. In particular, in the territorial distribution in the Central and Southeast European countries, no essentially dramatic structural change occurred until the Munich Agreement in Czechoslovakia and in the Southeast European states until the outbreak of war.

Table 2 contains a quantitative estimate of direct foreign capital investments in joint-stock companies in industry and commerce.

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del as well as in joint-stock banks in individual countries, as far as statistical documents are available. Strictly speaking, the figures are not comparable from country to country, but the undisputed predominance of Western investments on the eve of the Second World War is evident, which on average amounted to approximately 70-75% of the total foreign participation for the entire region (including Great Britain, France, the USA, Belgium, Holland and Switzerland). Germany held
It ranks on average 5th or 6th in the ranking of countries of origin of foreign investments, with the exception of Poland, where it was in 3rd place. Britain either occupied first place, as in the 1930s, or second place behind France, as in Yugoslavia and Romania, while in the ranking of direct participation in industrial enterprises in Poland and Bulgaria it was behind Germany. It is important to stress, however, that in the latter two countries British capital imports increased and in the years 1935-1939, that is, up until the outbreak of the war, Britain moved up the ranking. In the case of Poland, the percentage share of German capital in total foreign participation in industry and trade fell from 25% in 1931 to 13.8% in 1937. At the same time, British capital increased

Table 1

Comparative data on long-term foreign investments in some Central and Southeast European countries (1937) in 0/0

Staat	Foreign state debt in 0/o of the total public debt	Direct foreign participation in 0/o of the total capital in companies			
		stock companies	ßanken schallen mb H.		insurance companies
Romania	89.2•)	83	–	75	70
Yugoslavia	82,S•)	61	–	75	–
Hungary	81,t•)	ca. 25	–	–	–
Bulgaria	72.3•)	ÿ8	–	–	–
Poland (1936)	63.0	44.2	*89.7*	29	–
Czechoslovakia (a)	17.5	29	3	15	26

1931/32, nad, Hermann Cross, Southeastern Europe. Agriculture and economic development, Leipzig 1937, p. 162.

b) Czechoslovakia was the only country in this area to also invest capital executed.

- Not known.

Compiled by Ivan T. Berend and György Rinki, Capital Accumulation and thc l'a!"ticipation of Forcisn Capital in I Hungarian Economy aflcr the First Worl<l War.

Nol vclle, Etudes I listoriques (Separatum) 1965; Bo!i<lar Jurkovit, Foreign Capital in Yugoslavia. Stuttgart, Berlin 1941; Peter AlaJjoJf, Foreign Capital in Bulgaria. Diss. Berlin 1942; Alice Teichova, An Economic Background to Munich. International Business and Czechoslovakia. Cambridge 1974; Leopold Wellisz., Foreign Capital in Poland. London 1938; for Romania Anuarul Scaristic al Rominici (1938, 1939); Statistical Pocket Book of Romania (1941) and Statistica Soc. An. (1938).

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share from 4.8 °/o to 5.5 °/o and the French share from 25.8 °/o to 27.1 °/o. Although British capital had only a small share of direct investment in Bulgaria, there is no evidence of a decline in British participation in Bulgarian companies on the eve of the Second World War. On the contrary, between 1937 and 1939 there were new British investments, for example in the gold mine "Zla.ta" and in the construction of the "Poels" canning factory.6 Much more striking, however, was the effect of British long-term capital in the Yugoslavian economy.

Table 2

Distribution of foreign capital holdings in joint-stock companies** in Czechoslovakia , **Yugoslavia, Bulgaria and Poland (1937) m 0/ o

country of origin of the investments	Czechoslovakia•)	Yugoslavia	Bulg.uicnc)	Polend)
Great Britain	30.8	17.3	1,	5.5
France USA	21.4	27.5	1	27.I
	3.5	12.0	9.2	19.2
Belgium	7.1	5.3	11.I	1
Holland	8.8	2.1		2.5
Switzerland1.	4.5	7.3	20.5	3.5
Germany	7.2 (5)	6.2•) (6)	0.4 25.1 9.3•) (5)	7.2 13.8
Austria Italy	13.1	–	–	(3) 3.5
Sweden	2.2	3.1	13.2	–
Hungary	0.9	1.2	–	2.7
	0.5	2.0	2.3	–
Czechoslovakia		8.5	7.4	1.6
Monaco		2.9		
Poland		0.3		
Liechtenstein		0.3		
Luxembourg		0.5		
South-Western capital Anglo-		2.6		
Dutch capital US-French capital		0.8		
Other countries		0.1		
		–	0.4	3.4
Tmgcsam,	100.0	100.0	100.0	100.0

a) Industry and trade. b) Private industrial enterprises. c) All print companies. d) Industry and trade. e) Cartography included (ranking in brackets).

Adapted from Alice Teidova, Concentration, Combination and Cartcliz:nion • Central and Southcast Europe since 1920. Paper, in East European Economa<a 19. n O,ford 1972.

5 1 copold Wcllin, Forcign Capital in Poland. London 1938, p. 151.

6 Ljuben Bcrov, Thc Wid1drawini; of Wenem Capitals from Uulgariÿ 011 thc Evc of th< Sccond World War. In: Studia Balcanica 4. 1971, pp. 225-256, here p. 251.

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wisdien mining and metallurgical industry, in which it held first place with 45% of the total direct foreign participation7• This also applies to the Romanian oil industry, where British capital investments dominated and British influence was the most effective force since the 1920s8 • In our assessment of British-German economic

interests in Central and South-Eastern Europe in the critical period from the end of the world economic crisis to the beginning of the war, Czechoslovakia cannot be excluded. For its role as a hub and mediator between Western, especially British and French economic interests and the South-Eastern European economic area is of the utmost importance for a deeper understanding of the economic significance of the Münden Agreement and the outbreak of war which shortly followed.

The way for French and British capital into Czechoslovak economic life was paved immediately after Versailles by the Czechoslovak government's legislation on nostrification and nationalization. While Western corporations and financial houses acquired significant shares in leading industrial companies and joint-stock banks in Czechoslovakia as early as 1919-1921, Great Britain and France did not export their capital to Southeast Europe until the late 1920s, after the economic and political stabilization of the Southeast European states. However, through their significant holdings, particularly in the iron and steel, metalworking and thus armaments and chemical industries, as well as in the major banks of Czechoslovakia, Western capital also gained a foothold in Southeast Europe. While the highly concentrated industrial and banking structure in Czechoslovakia created favourable conditions for extensive connections between the foreign capital involved and the domestic economy, this horizontal and vertical monopoly formation also enabled and promoted further capital expansion into the economic area of the south-eastern European states.

Chodovák companies and banks had already branched out investments in Transleithania before 1914. During the interwar period, their group companies increased through new establishments and expanded participations in the south-eastern European region. This outwardly formally Czechoslovak capital export was not of purely Czechoslovak origin, but rather a mixed Anglo-Czechoslovak (in banking)

7 Sergcj Dimitrijcvit, Foreign Capital in Yugoslavia before the Second World War war. Berlin-O. 1963, p. 52.
8 Costin MurgC$CU / Nicolae N. Constantincscu (ed.), Contribu1i la istoria capitalului strain in Rom1nia. Bucharcn 1960.

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chemistry), French-Czechoslovakian (in banks, iron and steel and mechanical engineering) or entirely British capital (in iron and steel, vegetable oil and fat).

It is widely believed that Great Britain showed no particular interest in the economy of Central and Southeastern Europe because it was relatively little involved in this area. In this context, the opinion has been expressed, particularly in Czechoslovak historiography, that Great Britain and France had voluntarily and deliberately withdrawn from their economic positions in Czechoslovakia long before Munich in order to make way for German expansion in Central and Southeastern Europe. This gave rise to the academic thesis that *Munich was an economic one before the political one.* If one examines the capital movements in the region in question in the 1930s, one cannot see any significant flight of capital from direct foreign investment to the West before the Munich Agreement, and certainly not in the face of advancing German capital.

What views did British and French banking and industrial circles hold and what reactions did they show in 1938 in view of the opening up of Central and Southeastern Europe for German interests? In order to answer this question in concrete terms, we will examine three sectors in which British capital played the most significant role in Czechoslovakia and beyond in Southeastern Europe: banking, iron and steel, and chemicals.

The banking system in Central and Southeastern Europe between the two World Wars was characterized on the one hand by its extremely strong dependence on the closely linked Anglo-French capital and on the other hand by its close links with industry. The importance of foreign capital in the leading banks in Czechoslovakia was noticeably increased by their extensive ramifications with numerous group companies in industry and trade in the country as well as in the southeastern Danube region. All foreign holdings in the large Czechoslovak banks arose exclusively from the ducks, and this caused particular concern to the Deutsche and Dresdner Bank . Their economic departments closely observed the development of Czechoslovakian financial institutions and searched tirelessly for ways to include them in the German sphere of interest.9• In the Dresdner Bank, the summer of 1938 , after the annexation of Austria, was considered to be the time when a breakthrough would be possible. The annexation had indeed affected the Vienna Länderbank, a branch of the

9 Ard,iv des Dcuud>cn Wirtschafts-Instituu, Berlin.

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Paris Banque des Pays de l'Europe Centrale, into the possession of the Dresdner Bank; however, the repeated pressure of representatives of the Dresdner Bank to also acquire the branch in Czechoslovakia met with determined resistance from the president of this bank, Andre Luquet, and the director of the Bank of England, Otto Niemeyer 10• Evidently, British and French senior financiers were not prepared to vacate Czechoslovakia to German banking interests.

Since the Dresdner Bank expected resistance to German capital expansion, efforts to penetrate the Czechoslovak banking system were kept secret before the Munich Agreement. In July and August 1938, negotiators held secret meetings with Sudeten German industrialists and bankers in Lower Poland to determine which bank in Czechoslovakia would be most suitable for the penetration of German capital.1 1

• They agreed on the Bohemian Escompte Bank and Credit Institute (BEBKA), which was linked through direct capital and credit holdings to the leading financial institution of the Czechoslovak economy, the Zivnostenska banka. The decisive factor for this tactical decision was the possibility of gaining insight into the affairs of the Zivnostenska banka and at the same time gaining influence over a considerable number of different group companies. In addition, one of the managing directors of the BEBKA, a Sudeten German, declared himself willing to provide the Dresdner Bank with all the necessary information.

Nevertheless, the planned takeover was not realized before Munich, but only after the establishment of the so-called Protectorate of Bohemia and Moravia, since British and Belgian capital was involved in the BEBKA, which could only be eliminated after the occupation of Prague and the outbreak of war.12 German efforts to secure a foothold *in the* Czechoslovak banking system only reached Munich and after the dismemberment of the state.

Much more prominently than in banks, British capital was involved in the Czechoslovak iron and steel industry through its interest in the Witkowitz mining and iron works, the largest industrial group in pre-Munich Czechoslovakia, which had the structure of a vertical monopoly and whose group plants were located outside Czechoslovakia's borders mainly in the heavy industries of the countries of Central and Southeastern Europe. As a Central European Red Shield property since the second half of the 19th century, the

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I.; f>ZAP. IMT - German Central Archive Potsdam. International Military Tribunal D III Q6-Case XI, Doc. No. 224. 1 i LbJ.

ß 185 - NID. Report on the meeting in Unter-Polaun.

12 Central State Archives Prague - Fasse Konccmy - Dobrozd6n{ (expert opinion).

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to the bndsche bank of the Rothschild family . Mi . the

By placing the emphasis of its interests in London, the Rothschild Group is strengthening its foothold in the Czechoslovakian
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Central and Southeastern Europe. Only in 1938, after the Ans u

especially after the Munich Agreement , negotiations were held for the sale of the Witkowitz works with the representative of the ÿ d -ÿruppC•
Bank, Karl Rasche, and the French broker of the Rothschild Baron ycr·

Eugene Rothschild, who left the London bank . These negotiations were supported by German physicists d ßar

OII threat to the leading Viennese family member c;,-staPo
Louis von Rothschild, who had been arrested by J.(rießS• after the annexation of
Austria , was put under pressure. Nevertheless , the company was not transferred

into German hands before the outbreak of war and all provisional decisions were declared null and void , which the British government was able to resolve dettt·
through diplomatic channels . u
The great importance that German industry in particular placed on the n ÿll
be seen from the . Witkowitz works can
1e significance of Hitler's order to General Kettel of 14 March 1939, which ordered the occupation of Witkow1tz 1·:a chmit dct11
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invasion of the German troops into the Czech Republic n the
so that the Polish army could occupy the Ostrava factories 1•11oz.ie

The violent dissolution of the war around the Witkowitz concern does not indicate an evacuation of the area outside Munich ."

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iodustric the Vormünchcnu Tsdicchoslo-..·akci. In: Historica 17. 1969•

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ÿS ÿ lßß i ÿ interesting. He claimed in his address to shareholders

ll1ch • In 1938, the Unilever companies in Central Europe could now be run more

Cell efficiently, as they were *located* in a remote customs area. They could also achieve

zeu greater profits

<lic ÿ ngs- and look forward to profit opportunities because the start of a European war would be

eliminated.15 D'Arcy Cooper's prediction turned out to be completely wrong, because just

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The British share in the shift works was confiscated as enemy property .

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the bishop The above discussion shows that Central and Eastern Europe,

k0111 mscrichtung of capital investments after 1918 up to the Münd1ener Ab-in di:ÿÿ and i

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Ccn _ German industrialists and bankers were unable to increase their shareholdings in

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i111 e In the first post-war decade this was an illusion. But

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Practically closed. In the area of capital investments, German attempts at economic

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expansion as well as political aspirations led to British and French fortified positions. Since

the structure of capital investments did not produce a consistent level of stability, foreign

trade has been in a state of decline since the second half of the

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The political situation in the 1970s was in strong flux. The German economic crisis, which

grew to a greater extent under the National Socialist regime, was aimed at undermining the

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1 The first was to undermine trade relations. This exacerbated the tension between the

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Second World War. Jürgen Wendt deals with this in detail17. Here *it* is more about

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20 • Jaltrhundem. Düsseldorf 197.3, pp. 483-512.

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the increasingly intense competition that had been taking place since the economic crisis between the Franco-British and thus also Czechoslovakian export interests on the one hand and those of German industry on the other, in the background of the structural change in foreign trade, namely within the framework of international cartels.

From the wealth of literature on cartels, it can sometimes be concluded that Germany was both the country of origin and, from a historical perspective, the economy of the cartels *per se.* This cannot be maintained for the interwar period in any case. Whether German industry was more cartelized than that of the Western powers remains questionable and could only be proven by comparative quantitative studies, which are not yet available. In a certain respect, however, cartels were relatively more important for Germany between the two world wars than for the other large industrial countries. Since German capital exports were weaker and the sum of German capital holdings in foreign industrial enterprises and banks was smaller than that of its competitors and Germany was therefore unable to participate sufficiently in the profits and trade of the capital-importing countries, German industry made greater use of the cartel system than its competitors and defended its claims to larger production quotas, higher export quotas and expanded sales areas in the bodies of international cartels.

However, the existence of effective international cartels presupposes the existence of effective national cartels in the partner countries, capable of complying with international agreements without being disturbed by regional competition. The most powerful international cartels, which controlled and regulated the world market, were organs of the steel and chemical industries, in which the leading groups were composed of representatives of British, French, Belgian and German industry.

In Southeastern Europe, international cartels found one of the most important sales areas for their semi-finished and finished products in the European economic area. There, the economic systems of the individual countries had reached a high level of cartelization, similar to that in the more advanced industrial countries. In the industries of Bohemia, Moravia, Austria and Hungary, cartels had been an essential part of the Austro-Hungarian economic system since the end of the 19th century. Many cartel associations collapsed between 1914 and 1918, and after 1920 they were renewed on a national basis in the successor states. Their number and sphere of influence increased enormously in the course of the world economic crisis. While coal, iron and steel, mechanical engineering products and chemicals in particular had already been in the forefront before the

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While the industrial crisis was controlled by cartels, the cartel system extended to almost all branches of industry with the help of state-enforced cartelisation. About two thirds of Polish and Hungarian industry were cartelized. The manufacturing industry of Romania and Yugoslavia, as well as of Dulgaria, was subject to cartels. This also applied to the leading consumer goods industries (e.g. textiles, sugar). An expert estimate indicates that 80% of Czechoslovakia's sales were
Slovak production was already being controlled by cartels before the onset of the global economic crisis1B.

In the chain of cartel relations from west to southeast, Czechoslovakia formed a special link as a partner of British and French companies, which were decisively involved in the leading Czechoslovak factories. This will be discussed and demonstrated below for two production areas that are essential for armaments: iron and steel and explosives.

The International Crude Steel Community, which controlled 65% of steel exports even before the world economic crisis and reached its peak in the period from the entry of the British Iron and Steel Federation in 1935 to the outbreak of the Second World War, is important in the context of our analysis because of the firmly established iron and steel cartel in Czechoslovakia, within which the sales office of the United Czechoslovak Iron Works (hereinafter referred to as the sales office) deserves special attention. The sales office was at the head of the Central European Group of the International Crude Steel Community (hereinafter referred to as the ZEG), which also included Austria and Hungary. It represented the ZI:.G in negotiations with the leading national steel cartels, the so-called founding groups of France, Belgium, Luxembourg and Germany. It ensured that the agreed conditions were complied with, kept records of the export transactions of the ZEG partners, imposed fines for exceeding quotas and issued compensation for unfulfilled quotas. In the market allocation of the International Crude Steel Community, Albania, Yugoslavia, Bulgaria, Romania and New Italy were allocated to the ZEG from the Central and South Eastern European sales areas. In this area and on the ZEG's domestic markets, the founding groups agreed not to compete with the ZEG's plants. In contrast, the ZEG steel plants had to refrain from exporting to the founding groups' market protection areas, which included not only the domestic markets but also the colonial areas of Great Britain, France and Belgium and, in the case of Germany, the free ports and Danzig10.

18 llrvin Hexncr, Ccskoslovcnskc kartcly. Prague 1935, p. 5.
19 Ardiiv Ostfodo{ likvidacn{ spravy ministcrstva hud a dolü (Archjv of the Zcmralliqui-

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In the complicated contractual framework of the International Crude Steel Community, Czechoslovak producers occupied a special position, which was due on the one hand to the close capital links between their plants and the Anglo-French iron and steel industry, and on the other hand to the common interest in eliminating German competition as far as possible. The Prague sales office managed a number of syndicates subordinate to the international cartel on the central and southeastern European markets. Nevertheless, the territorial division of the market and production quotas could by no means prevent the increasing competition in southeastern Europe, which played out in a peculiar way within the framework of the cartel.

Czechoslovak representatives of the ZEG saw one of their main tasks in the cartel as keeping German products as far away from the markets of southeastern Europe as possible. In fact, however, German and Czechoslovak steelworks competed with each other in all products that were the subject of the international cartel agreement on mutual market protection. Their interests clashed not only in Romania, Yugoslavia and Bulgaria, but also on the domestic markets of the ZEG itself, in Hungary and Austria, where German steelworks undercut the prices set by the cartel and agreed to more favorable delivery and payment terms than those permitted by the cartel. The increased penetration of the German steel industry into Central Europe coincided with the growing concentration of this branch of industry since the mid-1920s and was particularly promoted by the majority shareholding acquired by the Vereinigte Stahlwerke in the Austrian Alpine Montangesellschaft, the leading Austrian group. By openly competing with the ZEG in an area allocated to the ZEG groups by the International Crude Steel Association, German entrepreneurs, despite the fact that they themselves belonged to the International Crude Steel Association, hoped to exert sufficient pressure to win a certain part of the Czechoslovakian market and thus the French-French sphere of influence for German products. The result was a new cartel association in 1929, which was signed as a result of negotiations at the Vienna headquarters of the Alpine Montangesellschaft between the Crude Steel Association of the German Steelworks and the sales office of the Czechoslovakian Ironworks. The German cartel was awarded 17% of the steel imports to Hungary, while Czechoslovakia retained 83% and the Austrian market was divided into three equal

Administrative Department of the Ministry of Iron and Steel), McIntosh map (International Maps) 10 008.

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parts between the Alpine Mining Company, the Pig Iron Association and the sales office. At the same time, a price increase for the steel products covered by the contract was agreed. In return, the German cartel partner undertook to refrain from further exports to Bulgaria, Yugoslavia and Romania - with the exception of a few specific types of steel20• A few days after the conclusion of this cartel agreement, the Pig Iron Association informed the sales office that the German plants had withdrawn from the areas concerned and that the Czechoslovakian entrepreneurs would no longer face German competition there21

The German-Czechoslovakian cartel association, kept secret from the western founding groups as a separate agreement, reflects the relative economic and political power of the cartel partners, which lasted from 1929 until the Munich Agreement. This balance of power remained intact even during the period of the temporary collapse of the International Crude Steel Community under the pressure of the world economic crisis. It also existed during the Czechoslovak-Hungarian Economic War, in which the Pig Iron Association took over the Czechoslovakian export quota in Hungary for the duration of the tension while maintaining all other contractual conditions22. This means that the south-eastern European market remained practically closed to German steel exporters.

The cartel for railway construction products, which was traditionally led by the British iron and steel works, i.e. the London Committee of the IRMA (International Railmakers Association), was particularly tight-knit. This cartel allocated Central Europe, Yugoslavia and Bulgaria as market protection areas to ZEG, and its rights were strictly controlled by London. Similarly, the Central and South-Eastern European area of ZEG was contractually secured in the International Wire Rod Association, and the path to German wire rod products was largely blocked. With the annexation of Austria, Deutsche Walzdrahtwerke AG won the Austrian quota, but the Czechoslovakian-Hungarian quota remained unchanged2'. In general, the German wire rod cartel had expressed its dissatisfaction with the quota system in the International Raw Materials Association since the mid-1930s and, in negotiations with the founding groups in 1936, had gained ground on the basis of its increased production capacity.

20 Ibid., Supplementary Agreement 9. The contract was to last until 19ÿ0.
21 Lbd., letter dated 2-4 April 1929.
22 Ibid., NiedcrschriA. of 6 August 1932.
2J SOA-KR - Seim(ustfcdn! archive - Kutelovy rcjstHk. State, Central Archives Prague - Cartel Register 40.

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Increases in the export quota for German works were demanded. Until 1936, the German wire rod works accounted for 20% of the world export quota in the International Wire Rod Association, and they demanded an increase to 40%. Among the representatives of the founding groups to which the International Wire Rod Association was subordinate, an increase in the German quota to 35% was considered24, but this was not implemented before 1939.

The examples given here show the mechanism of competition under regulated and controlled sales conditions. The cartel system reacted with contract changes and supplementary agreements or, from the western side, with a defense of the *status quo* to the repeated demands of the German partners in the International Crude Steel Community for market expansion and quota increases, which since 1936 coincided with the economic and political offensive of Nazi Germany for a larger share of the foreign trade of Central Eastern and Southeastern Europe.

The content of the cartel agreements and arrangements covering the entire range of iron and steel production as well as semi-finished and rolled products contains a history of the tug-of-war between the western and Czechoslovak iron and steel producers on the one hand and the German ones on the other, in which, despite limited willingness to compromise, the Anglo-French interest groups retained the upper hand in the south-eastern European markets until the outbreak of war. The steel industry was most likely a reflection of international politics more than other branches of industry. In the 1920s it translated the reality of the Treaty of Versailles into cartel contract terms. When competition between the major European powers in central and southeastern Europe increased in the 1930s, German expansionist efforts were not only restricted within the contractual limits, but were even pushed back in some key areas. Characteristic of the later development is the exclusion of Danzig from the German market protection sphere in all existing and renewed cartel agreements and its integration into the Polish market protection sphere in 1936, following Poland's accession to the International Steel Community.25 The internal steel cartel system could only exist if and as long as the German partners kept to the rules. By and large they did so until 1938; however, with the annexation of Austria, the exclusion of Danzig from the German market protection sphere was made possible.

A breach in the international crude steel community was made. Within 24 hours, Germany increased its quotas by Austria's.

24 Ibid., transcript of a meeting of the ZEG, 21 November 1936, in Vienna.
25 SOA-KR 43, 54, 205/4, 692, 693.

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Already weakened, the ZEG was completely destroyed *with* the dismemberment of Czechoslovakia and the creation of the Protectorate of Bohemia and Moravia, and Germany took over all its rights in the south-eastern European territory. However, the western groups did not terminate the entire foreign treaty until the outbreak of the war, after the political balance on which *international* economic relations had been based, however shaky it may have been, had completely collapsed26.

In the German industry of the interwar period, international capital and cartel relations were extremely closely interwoven and practically impossible to overlook. The monopolistic chemical companies of the leading industrial countries exercised a high degree of control over the main groups of chemical products on the world market and a few but extensive cartel associations were able to regulate the most important areas of chemical production and to carry out an effective territorial division of the market.27 An investigation of this monopoly structure is made difficult by the complexity of the interrelationships, but mainly by the secrecy of ownership relationships and cartel contract terms. It is therefore extremely difficult to peel the mutual interests of two groups in the production area of a certain product in a certain sales area out of the tangle of chemical cartels. With the reservations just mentioned, this will be attempted in brief overview using the case of British-German interests in the explosives production of Central Eastern and Southeastern Europe.

Immediately after the First World War, the leading British chemical company Nobel Industries Ltd. took over the largest share of the foreign trade of its former German business partners, and the cartel agreements with its American allies, El du Pont de Nemours & Co., gave it a free hand in Europe28. While the pre-war relations of the Anglo-American chemical industry became closer after 1918, German chemical plants remained excluded from international cooperation. Despite the anti-trust legislation of the United States, the German chemical companies closed their factories in 1918.

In 1920, the European company du Pont de Nemours and British Nobel Industries signed a patent and production agreement that functioned as an effective international cartel.

26 For more details see Alice Tcimova, An Economic Background to Munich, International Business and Czechoslovakia. Cambridge 1974, Chapter 3/2.

27 See Alice Tcichova, International trade and the chemical industry of pre-Middle Czechoslovakia. In: Tradition 17. 1972, pp. 143-175.

28 See William Joseph Reader, Imperial Chcmical Induscrics, A History. London 1970, p. 396.

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is to assess the production and market distribution of explosives.

The British-German European spheres of interest for explosives products developed in a differentiated manner in the early 1920s. Britain's Nobel Industries granted its German pre-war partner, Dynamit AG (hereinafter DAG), certain limited - because illegal - contractually undetermined sales areas in Western Europe, which Dynamit Nobel AG had controlled before 191429.

In Central and Southeastern Europe, the British-German relationship of interests changed fundamentally, because the British chemical industry obviously found completely new opportunities for expansion in this area.

British Nobel Industries' interest in Central and Southeastern Europe began in Czechoslovakia, which was regarded in London as the most stable successor state. Together with the Paris-based Societe Centrale de Dynamite and with the agreement and political support of the British and French governments, Nobel Industries became involved in Czechoslovak explosives production through the firm Explosia, akciova spolecnost pro prumysl vybufoin. By granting a thirty-year monopoly on the production of explosives for military and civil use, the Czechoslovak government guaranteed the Anglo-French capital investments, which were initially taken over with an equal share of 16% each3°. Starting from Czechoslovakia, Nobel Industries expanded its capital investments to Hungary and Romania and concentrated all its central and southeast European interests in the administration of its Vienna office. In the southeast European area from Bratislava to Belgrade , the British explosives companies encountered competition from the Austrian Dynamit Nobel Co., which had evidently not broken its connection with the German DAG.

Similarly, in the first half of the 1920s, DAG again emerged as a serious competitor in other European and South American markets that Nobel Industries and du Pont had claimed for themselves. In order to forestall the potential spread of DAG interests, talks began which led in the summer of 1925 to an Anglo-American-German settlement agreement and to the acquisition of a roughly 20% stake in DAG by du Pont and Nobel Industries. Another result of the Anglo-American-German negotiations was a commitment by the German

29 Ibid., p. 405.

30 PA-VCHZ - Podnikovy arcbiv Vyd,odÿcskych chcmickfd, dvoJu (Bctricbsarchi,) - Synrhrsi:IP:trdubice fted. Exhibit *9.*

31 Reader, p. 406.

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explosives producers to refrain from any activity that threatened British interests in Southeast Europe for five years. Almost at the same time, the German chemical industry was absorbed into the powerful monopoly organization of the I.G. Farbenindustrie AG, including DAG. This meant that the significant Anglo-American capital investment in DAG had shrunk to a fairly insignificant share in the share capital of IG Farbenindustrie. It was maintained, however, and in this context it can be assumed that the Anglo-American-German capital link was basically based on the knowledge of DAG's constant violations of the Versailles ban on the export of military explosives and that Nobel Industries and du Pont tolerated these violations as long as IG Farben complied with the cartel agreements on market protection areas.

As a direct result of the German concentration, the largest merger of the interwar period in the British chemical industry took place, the founding of Imperial Chemical Industries (ICI), which also included Nobel Industries and all its interests, including those in Central and Eastern Europe. Between 1926 and 1932, ICI signed a series of cartel agreements with du Pont on the sale of explosives for military purposes, which left Central and Southeastern Europe in the ICI market protection area. In this agreement, a special agreement was made on ICI interests in Czechoslovakia, where British influence had become increasingly strong. In 1931, ICI took over the 16% share of the AG.

Dynamit Nobel in Bratislava, in which the German DAG was involved. ICI investments increased and rose to 32%, and the British side became the most influential foreign shareholder in the Czechoslovakian explosives monopoly.32 This capital shift corresponded to both the international cartel agreements and the intentions of the Czechoslovak government and the Anglo-French diplomatic circles, because it eliminated any indirect influence of IG Farben on Central and Eastern European explosives production. The consolidation of British interests in the Danube region at the beginning of the 1930s, which can be traced both in capital relations and in the cartel system, did not change in the explosives industry until the time of the Munich Agreement and the upheavals of 1938-1939. On the contrary, the Anglo-French corporations protected their production and market interests in Central and Southeastern Europe with regard to the production of explosives.

32 PA-VCBZ. Red. Eipl. 9.

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sives for military purposes. However, the mutual British-German interests in the International Nitrogen Cartel were different, within which the Central and Southeastern European region in the field of nitrogen production for agricultural and technical purposes belonged to the sphere of interest of the IG Farben Conzei;ugesellschaft, the Nitrogen Syndicate.33 • But even in this production area, the balance between ICl and 1. G. Farben was maintained in the leading body of the International Nitrogen Cartel, the DEN Group (Germany, England, Norway), until September 1939.

In this article, two branches of industry that were crucial for armaments and which had a high degree of cartelization were examined in the light of British-German competition in Central and Southeastern Europe. Iron and steel products and explosives are obvious examples, but they only emphasize one side of the competition within the framework of the interwar cartel system. The other side, which perhaps concerns less armament-relevant branches of industry and which cannot be discussed in this article, consists of the gradual advance of German products into the Central and Southeast European sales area, which can be clearly demonstrated in new cartel agreements and additional agreements to existing agreements after the world economic crisis and especially after 1936, and is reflected in the foreign trade statistics34. This intensified the contradiction between capital interests and the direction of foreign trade in the Central and Southeast European countries, which J. B. Wendt aptly describes as a divergenceH.

Until the annexation of Austria and the Munich Agreement in 1938 and partly in 1939, the changes took place within the framework of the international cartel structure. After Munich, negotiations were to be conducted between the Reich Industry Group and the Federation of British Industries, which began in Düsseldorf in mid-March 1939 and continued haltingly during the spring and summer of 1939 in order to adapt the cartel system to the new balance of power that was a direct result of Munich and, most probably, to give German industry greater opportunities in South Eastern Europe.38 These efforts were overtaken by the political and military reality of autumn 1939.

33 Tcid,ova, International Cartels, p. 153.
34 See Tcichova, An Economic Background.
35 See Wendt, p. 496.
36 See Alice Teichova, Grcat Britain in European Affairs (March 15 to August 21, 1939). In: Historica 3. 1961, p. 239 336, here p. 266 ff.

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J In the conclusion we will return to the starting point of this article.

The economic bodies of the industrialized countries as well as the competing global corporations (Imperial Chemical Industries, Unilever, Vickers Ironworks, Vereinigte Stahlwerke, IG Farbenindustrie and many others) viewed Central Eastern and Southeastern Europe as a unified sphere of their economic interests, despite the nation states founded in 1918.

If one bears in mind that Czechoslovakia was the key to Southeast Europe, then there is no need to point out the questionable nature of the theory of a planned withdrawal of Western and especially British capital to promote German economic interests. The theory of an economic Munich long before the political one is untenable. Interventions in the structure of capital investments in the Middle East and Southeast European region were only undertaken in the aftermath of the Munich Agreement and during the Second World War, when the balance of power was forcibly changed in Germany's favor.

From the British point of view at the time of the Chamberlain government, the German penetration resulting from the Munich negotiations should not Great have been so limited. More extensive economic cooperation between Britain and Germany should have been the result of Munich, *in* which the question of German interests in Central and Eastern Europe would have had priority. In the spirit of Munich policy, Great Britain had nothing against a certain strengthening of German economic, political and even military influence in this area, for it was relatively less interested in the Danube region than in the British Empire and South America. Great Britain's willingness to make concessions to Germany was, however, accompanied by demands for safeguards for Great Britain and for limits to German spheres of interest, on which no satisfactory agreement could be reached. London was not prepared to give up its positions to the extent demanded and to forfeit any right of appeal in South Eastern Europe. As a result of a thorough withdrawal of British interests from south-eastern Europe, Britain would have lost one position after another in the West as well, and this was also one of the factors why Britain could not defend its positions without war.